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**Effects of economic reform policies and foreign debt
on the full enjoyment of all human rights**

**Report submitted by the independent expert,
Bernards Mudho**

Addendum

**MISSION TO MOZAMBIQUE* **
(27 to 29 July 2005)**

* The summary is being circulated in all official languages. The report itself, contained in the annex to the summary, is being circulated in the language of submission only.

** The reason for the late submission of this report is the need to reflect the latest information.

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Summary

At the invitation of the Government of Mozambique, the independent expert on the effects of economic reform policies and foreign debt on the full enjoyment of all human rights undertook a country mission to Mozambique from 27 to 29 July 2005. In accordance with Commission resolution 2000/82, which established the mandate of the independent expert, the general objectives of the mission were: (a) to examine the effects of the burden of foreign debt, and the policies adopted to face them, on the capacity of the Government to adopt policies and programmes for the enjoyment of economic, social and cultural rights; (b) to engage in dialogue with the Government, United Nations bodies and specialized agencies and the civil society in their efforts to secure these rights; (c) to follow up on relevant concluding observations and recommendations from the treaty bodies; and (d) to recommend measures and actions that could be taken to alleviate such effects.

Mozambique has made important strides in achieving economic growth, macroeconomic stability and debt sustainability, recovering as it is from long civil war and a series of natural disasters. The Debt Initiative for Heavily Indebted Poor Countries and a series of debt reschedulings have enabled the Government to protect the social expenditures, but the country remains highly dependent on external assistance and faces important challenges in terms of both poverty reduction and human rights. Despite the high rate of economic growth in recent years, the country remains at the bottom of the human development index. There is also wide regional disparity within the country in terms of progress in poverty reduction.

The mission of the independent expert has been informative in developing an understanding that economic growth and macroeconomic stability are necessary, but not in themselves sufficient, conditions for the reduction of poverty and the realization of human rights. The general finding of the independent expert is that, while commending the efforts made by all stakeholders for the implementation of Mozambique's Poverty Reduction Strategy Paper (*Plano de Acção para a Redução da Pobreza Absoluta*, or PARPA), more conscious efforts are needed to integrate human rights into its goals, plans and processes, if the opportunities given by the debt relief are to have a sustainable impact on poverty reduction. At the time of the mission of the independent expert, the Government was in the process of formulating the PARPA II (2006-2010), and it is hoped that many of the shortcomings and lessons learned from the first PARPA will be reflected in the new document.

Mozambique is also an instructive illustration of innovative partnership and cooperation modality between donors and the Government. General budget support and its joint review mechanisms provide ample opportunities to ensure country ownership, transparency and accountability. Human rights could offer important guiding principles in providing a strong legal basis for these concepts.

It is also acknowledged that the prolonged civil war had had serious debilitating effects in terms of human development and capacity. One of these is the gulf that still exists between general commitment by the Government for the promotion and protection of all human rights and the capacity of the Government to protect these rights and of the citizens to claim them. Hence, further progress still remains to be made on reform of the judicial sector and establishing an independent institution for the protection of human rights. Moreover, improved coordination,

monitoring and accountability mechanisms are needed to ensure coordination and linkages with the overall national development plan, so that the commitments the Government has undertaken under various international treaties can be translated into reality and thus lead to enhanced enjoyment of all human rights by the poor and the vulnerable.

The report concludes with several recommendations addressed to the Government and other parties:

(a) Human rights norms and principles such as equality and non-discrimination, participation and inclusion, and accountability and the rule of law, should guide and inform the implementation of the new cycle of PARPA for 2006-2010. The current efforts in the area of judicial sector reform need to accelerate. At the same time, human rights principles should be integrated under all PARPA objectives as a cross-cutting issue. The contribution of PARPA towards full realization of all human rights would be further strengthened by clearly stipulating the obligations of the State under the international human rights treaties it ratified, and by elaborating on the means to implement them;

(b) While the country is well on track in terms of debt sustainability, more efforts are needed to continue monitoring of public expenditure and new loan contraction in order to strengthen debt surveillance. Furthermore, close monitoring would be required to ensure that the proceeds from debt relief are effectively used to meet the needs of the most vulnerable segment of the population;

(c) Monitoring and accountability frameworks should be further strengthened by improving the engagement of other stakeholders - in particular the parliament and civil society - and developing their respective capacities to scrutinize public budget to the end that human rights considerations are duly taken into account;

(d) The independent expert encourages an early establishment of a national human rights commission in accordance with the Paris Principles which could play an important role in the independent monitoring and evaluation of PARPA implementation from human rights perspectives.

Annex

**REPORT OF THE INDEPENDENT EXPERT ON THE EFFECTS
OF ECONOMIC REFORM POLICIES AND FOREIGN DEBT
ON THE FULL ENJOYMENT OF ALL HUMAN RIGHTS,
BERNARDS MUDHO, ON HIS MISSION TO MOZAMBIQUE
(27-29 July 2005)**

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Introduction

1. At the invitation of the Government of Mozambique, the independent expert on the effects of economic reform policies and foreign debt on the full enjoyment of all human rights, undertook a country mission to Mozambique from 27 to 29 July 2005. In accordance with Commission resolution 2000/82, which established the mandate of the independent expert, the general objectives of the mission were: (a) to examine the effects of the burden of foreign debt, and the policies adopted to face them, on the capacity of the Government to adopt policies and programmes for the enjoyment of economic, social and cultural rights; (b) to engage in dialogue with the Government, United Nations bodies and specialized agencies and the civil society in their efforts to secure these rights; (c) to follow up on relevant concluding observations and recommendations from the treaty bodies; and (d) to recommend measures and actions that could be taken to alleviate such effects. The independent expert also paid particular attention to the situation of HIV/AIDS in the country, bearing in mind Commission resolution 2003/21, in which the Commission urged States, international financial institutions and the private sector to take urgent measures to alleviate the debt problem of those developing countries particularly affected by HIV/AIDS, so that more financial resources could be released and used for health care, research and treatment of the population in affected countries.
2. The independent expert was particularly interested in visiting Mozambique, which is at a critical juncture in its development process after recovering from years of civil war and several natural disasters. Mozambique has in recent years enjoyed stable economic growth and successfully implemented structural reforms under the International Monetary Fund (IMF) programme. This has enabled the country to benefit from a series of debt relief and reschedulings including under the Debt Initiative for Heavily Indebted Poor Countries (HIPC) initiatives. A substantial reduction in poverty was realized over the past decade, albeit from a very low starting point. At the same time, the country still faces important challenges to move from the bottom of the Human Development Index (HDI) ranking. The aim of the mission was therefore to observe how these positive developments have translated into the improvement of the lives of the people and their enjoyment of human rights, as well as to draw any lessons learned from Mozambique's experience.
3. During the mission, the independent expert met with senior officials of the Ministry of Foreign Affairs and Cooperation, the Ministry of Finance, the Ministry of Women and Social Action, the Ministry of Health and National AIDS Council and the Ministry of Justice. He also met with the Deputy Chief Justice of the Supreme Court and key members of the Parliament including the Presidents of the Committees on Social Affairs, Planning and Finance, Human Rights and Legal Affairs.
4. The independent expert held briefings and substantive meetings with the United Nations Resident Coordinator/Resident Representative of the United Nations Development Programme (UNDP) and representatives of the United Nations Children's Fund (UNICEF), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations High Commissioner for Refugees (UNHCR) and the United Nations Population Fund (UNFPA), as well as representatives of the Department for International Development (United Kingdom).

5. The independent expert held further meetings with representatives of civil society, including the Mozambican Debt Group and the Association of Human Rights and Development.

6. The independent expert wishes to thank the Government of Mozambique and all those organizations and individuals who provided valuable information, and in particular the United Nations Resident Coordinator and her office, for the assistance and support provided for the mission. Owing to a factor beyond the control of the organizers of the mission, the duration of the mission had to be shortened to three days from the five originally planned. As a consequence, the independent expert was unable to make field visits to see at first hand the impact of Government policies and projects. Nevertheless, the independent expert was very appreciative of the host Government and the United Nations Resident Coordinator's office, which made every effort to reschedule appointments and meetings, and would like to seize this opportunity to express special thanks to them.

I. MOZAMBIQUE'S COMMITMENT TO INTERNATIONAL HUMAN RIGHTS

7. Mozambique is party to a number of international treaties on human rights, including the International Covenant on Civil and Political Rights (ICCPR) and its Second Optional Protocol, the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD), the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child and its Optional Protocol on the sale of children, child prostitution and child pornography, the African Charter on Human and People's Rights and the African Charter on the Rights and Welfare of the Child. Mozambique has not yet ratified the International Covenant on Economic, Social and Cultural Rights. The independent expert was informed that the new Constitution which came into effect in 2005 integrated provisions of all international treaties ratified, as well as economic, social and cultural rights. Noting that the Government was in the process of studying the implications of ratifying the International Covenant on Economic, Social and Cultural Rights, the independent expert would encourage early ratification of the Covenant.

8. With regard to the reporting status, Mozambique has so far submitted its initial reports under ICERD in 1983 and under the Convention on the Rights of the Child in 2000. At the time of writing, 19 reports remain overdue under all treaties under the United Nations system. The Government acknowledged the challenges faced in implementing various treaty obligations, including reporting, and described measures that were being undertaken, including the organization of a seminar among concerned Ministries and civil society to discuss follow-up on concluding observations by the treaty bodies. In terms of the special procedures mechanism of the Commission on Human Rights, the Government gave an invitation to the Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of physical and mental health (the right to health), who undertook the mission in December 2003. The mission of the independent expert in July 2005 was the second such fact-finding mission by the special procedures mechanism. The independent expert encourages the Government to continue and further enhance its engagement with all Special Rapporteurs and treaty bodies. Towards this end, and particularly in terms of follow-ups, he recommends that the Government should institutionalize effective coordination mechanisms, such as an inter-ministerial committee, with the participation of civil society.

9. While overall the country has made significant advances in reducing poverty, it is acknowledged that poverty reduction efforts are being undermined by slow progress in reform of the justice sector. The overcrowded prisons, the lack of legal representation and assistance for the disadvantaged, the shortage and limitations of both formal and informal justice services at district and community level, are elements of the weak functioning of the national human rights protection system.

10. One of the key recommendations made by the Special Rapporteur on the right to health and the Committee on the Rights of the Child, to which the independent expert would add his voice, is the establishment of an independent monitoring body in accordance with the Principles relating to the Status of National Institutions (Paris Principles). Such an institution can help to promote and protect human rights by working closely with the Government, the judiciary, the Parliament, civil society and international partners. The independent expert was encouraged to learn that the Ministry of Justice was working on draft legislation for the establishment of a human rights commission, and recommends that the Government seek technical assistance, as appropriate, from the Office of the High Commissioner for Human Rights to ensure its conformity with the Paris Principles.

II. ORIGIN OF DEBT AND STRUCTURAL ADJUSTMENT IN MOZAMBIQUE

11. Mozambique began to accumulate substantial external debt in the late 1970s following independence from Portugal. The civil war and the external political factors relating to the conflict contributed significantly to Mozambique's accumulation of external debt. Almost 20 years of civil war took a heavy toll on the country's human and physical capital, disrupted export capacity, increased dependency on imported food and goods and damaged the fabric of an already fragile society. The human costs of such conflicts do not result only from direct violence, but often also arise from hunger, forced migration and the collapse of public services stemming from the wider effects of prolonged conflict on the economic and administrative structure of the country as a whole.

12. Military expenditure rose significantly between 1980 and 1992, a large part of which was financed by military debt incurred through the purchase of Soviet military equipment. It is acknowledged that both sides involved in the cold war lent money to Mozambique well beyond any realistic expectation of the country's ability to repay. Methodist Bishop Bernadino Madlate, the President of the Christian Council of Mozambique, once described how apparent generosity can turn into bad debts: "Many poor countries owe money which they did not choose to borrow. In some cases it was imposed on the country. We owe millions and millions of dollars to Russia because when we achieved independence Russia inundated the country with arms and war planes that we didn't even know how to use and now we must pay for. The Democratic Republic of Germany inundated the country with combine harvesters for rice but now twenty years on only one or two of these combine harvesters is still working, the rest are now pieces of abandoned metal lying in the fields. It is now that we are having to pay for these things that were of no use to us."¹

13. Mozambique was vulnerable to other exogenous shocks such as the increase in oil prices and in the price of manufactured goods in the international market in 1974. The embargo against the former Rhodesia during 1976-1978 and the discontinuance in 1978 of the agreement with

South Africa for miners' remittances to be paid directly to the central bank in gold valued at 1973 prices deprived the Government of a stable source of foreign exchange and contributed to the growing external imbalances.

14. Another important contributing factor to the balance-of-payments problem was the impact of floods and droughts. The floods of the Limpopo and Incomati rivers in 1977 and the Zambezi River in 1978 resulted in damages of approximately US\$ 100 million and affected some of Mozambique's most fertile zones. This was followed by a period of full-scale drought in 1980, which lasted until 1983. Thereafter, Mozambique suffered from another cycle of floods in 1984-1985 and two severe droughts in 1986-1987 and 1991-1992. The food shortage resulting from these disasters forced the country to rely on food imports to feed its people, which contributed to the large current account deficit.

15. Following the post-independence economic crises, the Government initially adopted a centrally planned economy at Frelimo's Third National Congress in February 1977. This was followed by successive waves of nationalizations, and by 1981 most large-scale economic activities had been brought under the State's control. Encouraged by economic rebound during this period, the Government undertook large public investment projects reportedly worth about US\$ 800 million in agriculture, industry, transport and communications, and construction. However, hit by a severe drought and intensification of the civil war, the economy slowed in 1981 and contracted sharply in 1982. Moreover, these public investment projects yielded a lower than expected return, and soon became a heavy burden on the Government budget to repay the credits drawn and to finance recurrent operational and maintenance costs. The Government's efforts to sustain these public investment and social subsidy programmes drained resources from the rest of the economy, and the country fell into a spiral of external debt.

16. It was also during this period that the Government sought more financial support and strengthened trade with the former Eastern bloc. After the initial flow of easy credits from Eastern bloc and oil-exporting countries and the subsequent accumulation of payment arrears, the country was forced to contract new loans in order to finance previous undertakings. By the mid-1980s, Mozambican economy and society was in disarray. Nearly two thirds of the population, or over 10 million people, were in absolute poverty. Gross domestic product (GDP) had fallen by half, production of major export crops by three quarters and export of goods and services by 57 per cent between 1980 and 1985. The debt service ratio had reached 247 per cent and external debt, including accumulated arrears, totalled US\$ 3.4 billion.

17. This compelled the Government to undertake a fundamental shift to market-based economic policies and structural reforms. In 1984, Mozambique joined the World Bank and the IMF, and was granted its first rescheduling from the Paris Club. In 1987, the Government launched the Economic Rehabilitation Programme (ERP) with the financial support of the Bretton Woods institutions. A series of economic reforms followed to address the economic crisis created by the imbalances generated in previous years. These included the unification and stabilization of the exchange rate; significant tariff reforms and trade liberalization; the elimination of most price controls; the privatization of about 900 public enterprises; and extensive financial sector reforms. For the next 10 years under the ERP, Mozambique made impressive economic gains: real GDP and exports grew on average by 6.8 per cent and 15.6 per cent respectively in the 1987-1997 period, albeit from a very low starting point.

18. The economic progress in the 1990s paved the way for Mozambique to obtain much-needed debt relief under the HIPC initiatives. In April 1998, the World Bank and the IMF agreed that Mozambique was eligible for the HIPC initiative, with the completion point to be achieved in mid-1999. In June 1999, Mozambique reached the completion point under the original HIPC initiative, thereby becoming eligible to receive US\$ 3.7 billion in debt service relief over time. This implied a reduction of 63 per cent of the debt outstanding at the end of 1998 in Net Present Value (NPV) terms. Meanwhile, the World Bank launched the enhanced HIPC initiative in September 1999, which meant that Mozambique became eligible for greater relief, with stronger links to support poverty reduction strategies. In response to the floods in early 2000, the World Bank and the IMF decided to accelerate the provision of their relief. Consequently, an agreement on the decision point under the enhanced HIPC initiative was reached in March 2000. Mozambique reached its completion point in September 2001, becoming the third country after Bolivia and Uganda to benefit from the enhanced HIPC initiative.

19. As a result of HIPC assistance and bilateral debt relief already committed, Mozambique's total external debt was reduced by some 73 per cent. The NPV of debt-to-export ratio was expected to remain well below the target ceiling of 150 per cent throughout the period 2000-2020 (averaging 77 per cent from 2000 to 2010 and about 44 per cent from 2011 to 2020). Debt service payments were reduced by almost a half (from over US\$ 100 million in 1998 to an average of US\$ 56 million from 2002 to 2010), creating room for additional public expenditures on poverty reduction. Debt service as a percentage of Government revenue was reduced from 23 per cent to an average of just under 10 per cent in the period 2000-2010 and 7 per cent in the period 2011-2020. Resources made available by debt relief provided under the HIPC initiative were to be allocated to key anti-poverty programmes, which are outlined in Mozambique's Poverty Reduction Strategy Paper (PRSP).

III. LINKING DEBT RELIEF TO POVERTY REDUCTION

A. Progress in poverty reduction

20. Mozambique has achieved impressive economic growth and a substantial reduction of poverty since 1992. According to the IMF, the Mozambican economy grew by 8 per cent annually and poverty levels fell from 69 per cent in 1996-1997 to 54 per cent in 2002-2003. There has been a remarkable agricultural "catch up" and a rapid expansion in tourism, construction and some manufacturing sectors.² However, Mozambique remains as one of the poorest countries in the world, ranking in the bottom scale of the Human Development Index. While a number of Millennium Development Goals seem within reach, it is still unlikely that Mozambique will meet the goal of universal primary school by 2015 or the goal of gender equality in education.³ The country remains highly aid-dependent, and faces challenges in addressing weak systems and poor capacity across the Government structures and services.

21. Poverty reduction has been a key focus of government policy in Mozambique for more than a decade, well before the introduction of the PRSP by the World Bank and the IMF in 1999. In 1995, the Government issued the Strategy for Poverty Reduction in Mozambique, setting out for the first time an explicit policy for poverty reduction, which was incorporated into the

Five-Year Government Programme 1995-1999. Since then, the Government's poverty reduction objectives, targets and strategies have been embedded in a series of public policy planning instruments. First, the Five-Year Government Programme provides the overarching set of guidelines and development objectives that constitute a broad platform for other policy instruments. This is followed by medium-term planning instruments including the Action Plan for the Reduction of Absolute Poverty (PARPA), sectoral and provincial strategies and plans and the Medium Term Expenditure Framework. Lastly, the Government develops annual Economic and Social Plans emanating from the Five-Year Government Programme and assessment of the previous year's performance and providing detailed statements of multisectoral goals and strategies, which are translated into the State Budget.

22. With the introduction of the PRSP requirement under the enhanced HIPC initiative, the Government prepared the PARPA 2000-2004 in 1999, which became the basis for the Interim PRSP presented in February 2000. In 2001, the Council of Ministers adopted a revised PARPA 2001-2005, following the Five-Year Government Programme 2000-2004, and incorporated it into the public planning system as a rolling and dynamic programming instrument. The central objective of the PARPA 2001-2005 is a substantial reduction in the levels of absolute poverty in Mozambique through the adoption of measures to improve the capacities of, and the opportunities available to, all Mozambicans, especially the poor. The specific objective is to reduce the incidence of absolute poverty from 70 per cent in 1997 to less than 60 per cent by 2005 and less than 50 per cent by the end of the decade. It sets out strategies and measurable objectives or performance indicators in six specific areas: education; health; agriculture and rural development; basic infrastructure; good governance; and financial and macroeconomic management. These areas of action were identified as fundamental for poverty reduction and growth, and the selection of priorities were based on the diagnosis of the poverty determinants in Mozambique.

23. The PARPA thus incorporates various dimensions of the National Population Policy, the Food Security Strategy, the National Strategic Plan to Fight STD/HIV/AIDS, the Post-Beijing Action Plan and the National Integrated Social Action, Employment and Youth Programme. It is worth noting that the PARPA highlights education and health as fundamental human rights, which have a direct bearing on empowerment of the poor. Other features of the PARPA that contribute to this empowerment include the decentralization and devolution of public administration, a commitment to increase transparency and deepen the process of participation in public administration, and a fundamental commitment to consolidate democracy and respect for human rights.

24. The monitoring of PARPA is integrated into the regular system of quarterly and annual Government reports to the Parliament. Special annual poverty reports are also prepared in conjunction with the review of the Economic and Social Plan. The review is submitted to the Poverty Observatory, which was established in 2003 to bring together all stakeholders from the Government, civil society organizations and international partners. At the same time, it monitors the process of consultations and participation of partners involved in the implementation of the relevant strategic areas and specific sectors.

25. In a more recent development, the Programme Aid Partnership was established in 2004 between the Government, the World Bank, the European Commission and a group of 15 bilateral donors⁴ providing budget and balance-of-payments support to Mozambique. The rationale for

Programme Aid to Mozambique is to provide efficient and effective financial support to the implementation of PARPA. General budget and balance-of-payments support represents the bulk of programme aid with a pledged volume of more than US\$ 240 million in 2004 (of which US\$ 60 million was made available by the World Bank in concessional loans). This is one of the largest joint programmes in Africa, both in terms of volume and donor agencies involved.

B. Debt sustainability

26. Assuming the full implementation of debt relief agreed under the enhanced HIPC initiative, IMF estimates that Mozambique's external and public debt situations are sustainable and would remain so in the future, given continued strong economic growth and prudence in fiscal and funding strategy.⁵ While the IMF/World Bank's debt sustainability analysis does not, in itself, take into account social and poverty dimensions, there are signs of direct and indirect correlations between the reduction in debt servicing payments and the increase in social expenditures. The substantial reduction in debt servicing obligations clearly expanded the fiscal envelope to increase spending on priority areas under PARPA. Between 1999 and 2000, the Government's debt service payments from the budget declined by US\$ 37 million, and in addition, the HIPC initiative assistance from the IMF transferred to the national budget increased by US\$ 32 million, thereby making available additional resources of US\$ 69 million in the national budget. Over the same period, domestically financed expenditures in PARPA priority areas (including education and health) increased by US\$ 78 million.⁶ Therefore it could be concluded that the debt relief and the additional resources provided under the HIPC initiative contributed to increased spending to fight poverty.

27. Mozambique's growth experience and economic success during the recovery period could thus be attributed to the following interrelated factors: a favourable macroeconomic policy environment and debt relief which reduced the Government spending; increased spending to ensure basic health care, education and other priority services which enabled the country to develop better quality institutions and human capital; and diversification of the economic base, following decisive steps taken on structural reforms, including privatization, financial sector reform and trade liberalization.⁷

28. The Government reported an increase in the expenditure execution in PARPA priority areas including in social sectors between 2003 and 2004, and attributed this result to a range of fiscal and budgetary policy actions, which were implemented largely in conformity with the structural adjustment programme.⁸ However, in retrospect, some of the conditionalities and measures taken under the structural adjustment programmes in the past have not been without a large social cost. For example, before Mozambique reached the completion point in 1999, one of the necessary conditions it had to meet was to liberalize its cashew nut trade. At the heart of this policy prescription from the World Bank was the price liberalization and competition among traders which would push up the prices so that peasants would increase their earnings. As a result, prices rose somewhat, but this benefited the traders more than the peasants.⁹ On the other hand, thousands of workers lost their jobs in cashew processing plants which had been one of the largest private sector employers in the country. Instead, Mozambique exported raw nuts to another developing country, where, reportedly, child labour was used to shell the nuts. Moreover, the price of raw nuts collapsed as the factories closed, which cut the peasants' income almost by half.¹⁰

29. An important lesson that can be learned from the cashew debate is that, however well intended a policy advice might be, one needs to consider all options and implications and to tread carefully before making precipitate claims about their effectiveness. It is also necessary to question some of the basic assumptions made which turned out to be false or based on insufficient empirical and conceptual basis in the cashew case. Understandably, the impact of policy changes is often difficult to measure and there are always elements of uncertainty. It is acknowledged that in many developing countries there is weak national and local capacity to undertake robust analysis to forecast debt sustainability and economic performance. At the same time, external partners and international institutions should not underestimate the local knowledge and expertise available in the Government and civil society, particularly with regard to understanding the possible impact of a policy change on people and their living conditions.

30. More recent experiences of Mozambique in the PARPA implementation, development planning and external resource management seem to indicate that more efforts are being made to improve the poverty monitoring and assessment, with increased participation of, and consultations with, all stakeholders.

C. Move towards general budget support

31. In the recent development discourse on aid effectiveness and national ownership, a new trend was evident among donors to move away from project-based assistance towards more direct general support to the national budget. General budget support is somewhat similar to balance-of-payment support, since it supports structural adjustment and policy reforms. The general budget support modality is different from previous structural adjustment programmes and their associated conditionalities in that donors, the host Government and other stakeholders work in close partnership and reach a common agreement on overall budget priorities and accompanying benchmarks for policy reforms. Donors then transfer funds to the national budget through the central bank, which is implemented and monitored by the Government as part of their overall national budget execution. The underlying assumption is that if development is to be successful and self-sustaining, the developing country concerned has to have ownership of the development process. This approach resonates closely with relevant human rights principles and provisions of treaties and declarations, for example, the Declaration on the Right to Development of 1986 which proclaimed that “the human person is the central subject of development and should be the active participant and beneficiary of the right to development” and that “States have the right and the duty to formulate appropriate national development policies that aim at the constant improvement of the well-being of the entire population and of all individuals, on the basis of their active, free and meaningful participation in development and in the fair distribution of the benefits resulting therefrom.”

32. In Mozambique, donors are increasingly participating in general budget support, both in terms of numbers and in terms of the amount of contributions. At the time of the mission of the independent expert, a total of 17 donors including the World Bank were participating in the general budget support to varying degrees. For these donors, although there are remaining concerns about the high-fiduciary risk associated with this modality of support, they are encouraged and emboldened by the opportunity to engage in an enhanced policy dialogue with the Government. However, general budget support in Mozambique is not without challenges. The level of current support provided under the general budget support scheme - about two fifths

of aid - is still insufficient for it to bring about significant behavioural changes in the Government-donor relationship, especially at the level of line ministries. Despite their common agreement on the usefulness of general budget support, donors continue to emphasize different concerns and have yet to completely move towards full harmonization of their efforts.¹¹

33. Another challenge is the generally weak capacity in the Government for budget management. Capacity-building within the Government takes time, and is constrained by the fact that many young graduates prefer to seek employment in the private sector or the NGO community rather than in government services. The Ministry of Planning and Finance faces particular challenges in coordinating with line ministries, since there is still little incentive for these ministries to fall in line with general budget support when more than half of donor assistance is still being provided as project-based assistance to sectoral ministries. At the sectoral level, there is often discrepancy between the plans prepared in accordance with PARPA orientation and the actual activities which do not represent significant departures from old practices or habits. Consequently, actual expenditures do not always reflect the approved budget. More efforts are also needed to ensure budget discipline and policy consistency between the Ministry of Planning and Finance and line ministries.

IV. MONITORING AND ACCOUNTABILITY MECHANISMS

34. While it is widely acknowledged that Mozambique has made remarkable achievements in terms of macroeconomic management, poverty reduction and innovative development planning, the challenges identified in the foregoing analysis generally point to the need for more strengthened monitoring and accountability mechanisms in the national budgetary and development processes. A rights-based approach would raise the levels of accountability in the development process by empowering the rights-holders to claim their entitlements and by holding duty-bearers accountable and under public scrutiny with measurable indicators and mechanisms for redress.

35. Human rights principles and concerns should inform the efforts to further improve PARPA indicators, in particular indicators relating to governance, which remain underdeveloped. Particular attention should be given to the implementation of obligations under international human rights treaties, including the submission of reports to treaty bodies, and to the collection of disaggregated data to capture gender, rural-urban and regional disparities and the situation of vulnerable groups. The Government may wish to take note of the indicator framework developed for the Common Country Assessment and the United Nations Development Assistance Framework (CCA/UNDAF), in which some of these concerns have been addressed, and to seek advice and assistance from the United Nations country team, as appropriate.

36. Governance reforms and strengthening the effectiveness and accountability of the State is a key pillar of PARPA. It is also an important cross-cutting issue that underpins the success of other poverty reduction strategy objectives and is crucial to promoting economic growth and building confidence with external partners and foreign investors, in order to, for example, obtain further debt restructuring with the Paris Club on concessional terms. The Government has established a number of monitoring mechanisms and processes for the implementation of PARPA and budget execution which have been reviewed in the foregoing sections.

37. While the country's debt situation seems to be sustainable for the coming years, it is important to further strengthen national capacity, both in the Government and civil society, for continuing surveillance and monitoring of public debts. The independent expert noted that discussion on debt sustainability is absent from the recent PARPA/PRSP annual progress report¹² and recommends that more robust analysis be made on a regular basis in future reports.

38. In terms of institutional checks and balances, in Mozambique the Administrative Court and the Parliamentary Commission for Planning and Budget are responsible for providing general oversight on public finance matters, including external debt. However, their role in terms of debt management is rather limited, as the Executive has all the responsibilities and authority and there is no specific provision that allows the involvement of the Legislature or Judiciary in loan negotiation.¹³ Although the Parliament has a role in debating and approving the State budget, its ability to act as a real check on the Executive is quite limited in practice. There is limited technical capacity among deputies and their staff to undertake rigorous analysis of budget proposals submitted by the Executive. The polarized nature of the parliamentary debate also undermines debate on strategic planning issues such as determining overall priorities and reducing regional disparities. Moreover, the Parliament has almost no role in the debate, approval and monitoring of PARPA and other medium-term planning instruments.¹⁴

39. In terms of the judiciary, PARPA has identified, as one its priorities, strengthening the capacity and efficiency of the legal and judicial system, with a view to improving public safety, protecting the rights and freedoms of citizens and reducing corruption. However, it is acknowledged that progress in this area has been slow compared with other priorities, which could affect the overall progress in terms of poverty reduction. Moreover, the joint review by the Government and donors participating in the general budget support identified weaknesses in the monitoring and evaluation system of the justice sector.¹⁵

40. Lastly, the critical role civil society plays in monitoring and demanding accountability of duty-bearers cannot be overemphasized. The PARPA process has the potential to increase participation of civil society in public policymaking and to develop dialogues and healthy debate between the duty-bearers and claim-holders, which should lead to increased transparency and accountability of the development process. More efforts should be directed towards building the capacity of the poor, and those organizations that support it, facilitating their access to information and data, and giving voice to their concerns in the development process. Civil society organizations broadly acknowledge that there has been some progress in increasing civil society dialogues with the Government. However, they remain underdeveloped in Mozambique: currently, only two major organizations are working on human rights and one on debt issues. More efforts are also needed to ensure meaningful engagement of civil society in the PARPA and national policy dialogues, by encouraging more active participation of organizations from rural areas, adopting non-technical languages in documents for discussion, and ensuring their involvement from the outset of the process.

V. CONCLUSION AND RECOMMENDATIONS

41. **Mozambique has made important strides in achieving economic growth, macroeconomic stability and debt sustainability, recovering as it is from long civil war and a series of natural disasters. The HIPC initiatives and a series of debt reschedulings have enabled the Government to protect social expenditures, but the country remains highly**

dependent on external assistance and faces important challenges in terms of both poverty reduction and human rights. Despite the high rate of economic growth in recent years, the country remains at the bottom of the human development index. There is also wide regional disparity within the country in terms of progress in poverty reduction.

42. The mission of the independent expert was extremely informative in developing an understanding that economic growth and macroeconomic stability are necessary, but not in themselves sufficient, conditions for the reduction of poverty and the realization of human rights. The general finding of the independent expert is that, while commending the efforts made by all stakeholders for the implementation of PARPA, more conscious efforts are needed to integrate human rights into its goals, plans and processes, if the opportunities afforded by the debt relief are to have a sustainable impact on poverty reduction. At the time of the mission of the independent expert, the Government was in the process of formulating the PARPA II (2006-2010), and it is hoped that many of the shortcomings and lessons learned from the first PARPA will be reflected in the new document.

43. Mozambique also provides an interesting lesson in terms of innovative partnership and cooperation modality between donors and the Government. The general budget support and its joint review mechanisms offer wide opportunities to ensure country ownership, transparency and accountability. Human rights could offer important guiding principles in providing a strong legal basis for these concepts.

44. Moreover, it is acknowledged that the prolonged civil war has had a draining effect in terms of human development and capacity. There is still a gulf between general commitment by the Government for the promotion and protection of all human rights and the capacity of the Government to protect these rights and of the citizens to claim them. Further progress is yet to be realized on reform of the judicial sector and establishing an independent institution for the protection of human rights. Better coordination, monitoring and accountability mechanisms are needed to ensure coordination and linkages with the overall national development plan, so that the commitments the Government made under international treaties will be translated into reality and lead to an improvement in the enjoyment of all human rights by the poor and the vulnerable.

45. Fully recognizing the formidable nature of these challenges and the positive actions taken by the Government with the support of the international community, the independent expert respectfully submits the following recommendations to the Government of Mozambique and other concerned parties:

(a) Human rights norms and principles, such as equality and non-discrimination, participation and inclusion, and accountability and the rule of law, should guide and inform the implementation of the new cycle of PARPA for 2006-2010. The current efforts in the area of judicial sector reform need to accelerate. At the same time, human rights principles should be integrated under all PARPA objectives as a cross-cutting issue. The contribution of PARPA towards full realization of all human rights would be further strengthened by clearly stipulating the obligations of the State under the international human rights treaties it ratified, and by elaborating on the means to implement them;

(b) While the country is well on track in terms of debt sustainability, more efforts are needed to continue monitoring of public expenditure and new loan contraction in order to strengthen debt surveillance. Furthermore, close monitoring would be required to ensure that the proceeds from debt relief are effectively used to meet the needs of the most vulnerable segment of the population;

(c) Monitoring and accountability frameworks should be further strengthened by improving the engagement of other stakeholders - in particular the Parliament and civil society - and developing their capacity to scrutinize public budget under the lens of human rights;

(d) The independent expert encourages an early establishment of a national human rights commission in accordance with the Paris Principles which could play an important role in the independent monitoring and evaluation of the PARPA implementation from the human rights perspectives.

Notes

¹ Quoted in an article by ChristianAid, "Forever in your debt?" (<http://www.christian-aid.org.uk/indepth/9805fore/forever2.htm>).

² IMF, "Staff Report for the 2005 Article IV Consultation, Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, and Modification of Performance Criteria", June 2005, p. 12.

³ IMF and the IDA, "Poverty Reduction Strategy Paper - Progress Report Joint Staff Advisory Note", June 2005, p. 2.

⁴ This group of partners are also known as "G-17", involving Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the European Commission and the World Bank (see www.pap.org.mz).

⁵ IMF, "Staff Report for the 2005 Article IV Consultation, Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, and Modification of Performance Criteria", June 2005, p. 81.

⁶ IMF and the IDA, "Republic of Mozambique: Completion Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative", September 2001, p. 11.

⁷ IMF, "Republic of Mozambique: Selected Issues and Statistical Appendix", August 2005, pp. 15-16.

⁸ Republic of Mozambique, *Review of the Economic and Social Plan of 2004*, June 2005, p. 93.

⁹ See UNDP Mozambique, *National Human Development Report 1998*, for extensive background and analysis of the cashew controversy.

¹⁰ Letter from members of Congress to United States Treasury Secretary Paul O'Neil regarding the IMF/World Bank intervention in the Mozambique cashew nut industry, 26 April 2001. Available at http://www.cepr.net/pressrelease/cashew_letter.htm.

¹¹ United States Agency for International Development, "General Budget Support: An Alternative Assistance Approach - Mozambique Case Study", August 2004, p. 18.

¹² See IMF, "Republic of Mozambique: Joint Staff Advisory Note of the Annual Progress Report on Implementation of the Poverty Reduction Strategy Paper", August 2005, p. 3.

¹³ African Forum and Network on Debt and Development, *The Loan Contraction Process in Africa - Making Loans Work for the Poor: The Case of Mozambique*, p. 17.

¹⁴ Tony Hodges and Roberto Tibana, "Political Economy of the Budget in Mozambique", Oxford Policy Management, Oxford, December 2004, pp. 9-11.

¹⁵ Government of the Republic of Mozambique and G-16, "Joint Review - 2005: aide-memoire", annex 4, May 2005.
